BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Adoption of Electric Revenue Requirements and Rates Associated with its 2015 Energy Resource Recovery Account (ERRA) and Generation Non-Bypassable Charges Forecast (U39E).	Application 14-05-024 (Filed May 30, 2014)

RESPONSE OF THE CITY OF SAN DIEGO TO ENERGY DIVISION'S OPTIONAL HOMEWORK ASSIGNMENT QUESTIONS IN PREPARATION FOR THE MARCH 8 WORKSHOP ON PCIA REFORM

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I. INTRODUCTION

On December 15, 2015 the City of San Diego (San Diego) approved its Climate Action Plan (CAP), which includes a goal to reach 100 percent renewable energy city-wide by 2035. The CAP references Community Choice Aggregation (CCA) as one potential mechanism to reach the San Diego's 100 percent renewable energy goal. Consequently, included in the CAP Supporting Measures is a requirement to "complete a citywide Community Choice Aggregation Study, which would include timelines for implementation and analyze potential costs.[1]"

[1] City of San Diego: Climate Action Plan, p. 35.

As stated in San Diego's Motion for Party Status in this proceeding, San Diego has already engaged with San Diego Gas and Electric Company (SDG&E) under its schedule CCA-INFO to obtain information for a preliminary and limited CCA feasibility study. San Diego thus already has received limited and confidential CCA-INFO information about load from SDG&E to enable the completion of the initial CCA feasibility study, which was prepared for the City by the Protect Our Communities Foundation (POC) and published in September 2015. The POC initial study is preliminary and recommends a follow-on study to more thoroughly analyze some issues identified in the initial study, including the Power Charge Indifference Amount (PCIA). The POC report found CCA to be financially beneficial to residents and businesses located within the City of San Diego assuming a Power Charge Indifference Adjustment (PCIA) of roughly $0.010 per kWh. But this conclusion was qualified on the need to have a more comprehensive follow-on study performed to include a deeper analysis of the PCIA in the San Diego area. The City has allocated funds to complete a full CCA feasibility study scheduled to begin in the second quarter of 2016.

D.15-12-022 directed that a workshop be conducted by the Energy Division to analyze the PCIA determination factors. The Energy Division set the workshop date as March 8, 2016 and invited interested parties to provide responses to several "optional homework assignment" questions about the PCIA ahead of the workshop. San Diego is submitting these responses accordingly, and requests that they be deemed supplementary to San Diego's Motion for Party Status, which the City anticipates being granted.

II. BACKGROUND

The City of San Diego is California's second largest city, representing the largest aggregate municipal load within any investor owned utility (IOU) service area and, in terms of a single municipality, comprises the largest percentage of any individual IOU load. Although the POC report (performed by Community Choice Partners, Inc.) found that a CCA program could be feasible for the City of San Diego, the preliminary analysis stated that "CCA rates may not be competitive with SDG&E's if initial customer enrollment in the CCA is too large without additional regulatory reform related to how the PCIA is calculated.[2]"

III. HOMEWORK ASSIGNMENT RESPONSES

A. Question 1: Please indicate your understanding of how the PCIA is calculated, identifying, in as much details as possible, each input to that calculation.

The PCIA is arguably the City of San Diego's primary challenge in assessing CCA, including understanding the PCIA calculation itself, its primary inputs and metrics, and the ability to both reliably calculate the PCIA and accurately forecast the PCIA into the future. Additionally, the potential volatility of the PCIA and the extremely short period of time after which a PCIA is approved for a municipality to incorporate it into an analysis or operations currently pose fundamental barriers to exploring the feasibility and establishment of a CCA.

[2] Community Choice Energy In the City of San Diego: An Initial Assessment of Program Prospects, p. 12 (Protect Our Communities Foundation, September 2015)

With respect to the PCIA calculation, an independent estimate of a community's future stranded cost obligations, or even the next year's PCIA charges, is unnecessarily complicated and requires access to disparate inputs that current confidentiality rules render difficult to access on a timely basis.

For instance, the PCIA calculation requires, at a minimum, detailed research and understanding of numerous California Public Utilities Commission (CPUC or Commission) decisions spanning almost a decade. The City understands that the most current updates to the PCIA calculation reside in Decision D.11-12-018. However, that Decision adopted several revisions and updates to the calculation methodology originally adopted in 2002 in Decision D.02-11-022, which was subsequently modified by three separate decisions in 2007 and resolution E-4475.[3]

An entirely separate set of a five decisions govern the confidentiality of calculation inputs.[4] While San Diego appreciates the critical importance of understanding the Commission's evolving stranded cost methodologies and requirements for departing load identified in these decisions, the deep level of expertise necessary to understand the available information and conduct even a preliminary PCIA forecast estimate for CCA feasibility assessment purposes has become an expensive and uncertain barrier to entry.

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[3] Decisions D.07-01-030, D.07-05-022, and D.07-05-005 all modified the mechanism adopted in D.02-11-022.

[4] D.06-06-066 adopting process for determining whether information is market sensitive; D.06-12-030 defining "market participants" and reviewing representatives; D. 08-04-023 adopting a model protective order; D.09-03-046 addressing rehearing of D.06-12-030; and D.11-07-028 clarifying reviewing representative definition.

Moreover, the lack of transparency of the inputs into the PCIA calculation, even for entities that have invested considerable time to understand it, results in an inability to forecast future years' stranded cost obligations or predict the coming year's PCIA charges with any degree of accuracy. As an example, the initial study of CCA feasibility for the City of San Diego performed by POC conservatively assumed a PCIA charge of $0.010 for 2016 vintage customers (based on a then-current SDG&E rate of $0.008), while SDG&E's actual 2016 PCIA rate approved by the CPUC in December 2015 was $0.01278.[5] By limiting access of the key calculation inputs to utilities, Commission staff and a very small community of reviewing representatives/consultants whose business model can accommodate current confidentiality requirements, there are very few resources available to assist municipalities in assessing the stranded cost risk and whether CCA makes sense for their communities.

In short, the PCIA calculation is an opaque process that can lead to unpredictable changes in the PCIA values that are difficult for a CCA to incorporate into rates, and even more difficult to incorporate into a feasibility assessment. Given the significant number of California communities currently considering CCA and the PCIA's importance to that assessment, the Commission should at a minimum provide a single-source reference tool for the PCIA formula, which includes its inputs, where those inputs can be found, and identifying which inputs are confidential and why.

[5] Community Choice Energy in the City of San Diego: An Initial Assessment of Program Prospects, (Protect Our Communities Foundation, September 2015).

B. Question 2: Do you believe the current PCIA methodology should be changed? If so, how and why? Please be as specific as possible.

Several developments make a compelling case for modifying the current PCIA methodology. As noted in San Diego's response to Question 1, the current PCIA calculation methodology is challenging to disaggregate, with many pieces of the formula difficult to access due to, among other considerations, confidentiality issues by the utilities. Beyond these challenges, the City observes that the Commission continues to consider additions to the types of costs eligible for recovery under the PCIA (e.g. storage), as well as programs that result in new or additional customer departing load (i.e. green tariffs, Net Energy Metering). Finally, in its last LTPP Decision in 2015, [6] the Commission adopted different, albeit vague, requirements for PG&E and SCE versus SDG&E with respect to accounting for future CCA activities in estimating future load and making forward-looking procurement decisions. Due to the fact that the City of Lancaster had embarked on a CCA program in 2015 D.15-10-031 the Commission found that, to be consistent with PG&E's load forecasting methodology, SCE should revise its Trajectory Scenario to reflect the departing load due to CCAs such as Lancaster.[7] Hence the requirement made applicable to PG&E was made applicable to SCE, but not SDG&E. The requirement for adjusting the utility's Trajectory Scenario for CCA departing load should be made applicable to SDG&E as well. In the context of these developments, San Diego offers principles that

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[6] D.15-10-031

[7] Id., ordering paragraph 23.

should govern the inputs and outputs of a revised PCIA calculation going forward and options that will facilitate them.

Cost Transparency: The PCIA rate is significantly impacted by the details of the utilities' procurement contracts. Much of that information is not public to municipalities considering CCA without participation in the utilities' annual ERRA Forecast proceedings (and even in those cases much of the contract information is redacted). As a result, a municipality trying to assess CCA feasibility is essentially handicapped at the outset. In other words, a municipality investigating CCA must go through the Commission's processes in order to accurately estimate the PCIA, yet the Commission's rules withhold the tools necessary to perform that calculation.

San Diego understands the goal of the Commission, the IOUs, and merchant producers in protecting certain procurement-related information from other market participants seeking to enter into resource or wholesale transactions with the utilities. However, community choice aggregators do not fit into this category.[8]

The Commission could consider updating the confidentiality rules to grant CCAs and communities considering CCA access to utility procurement information necessary to make informed decisions and reasonably plan operations. Access to this limited group would not compromise the confidentiality of utility information from wholesale market participants. Additionally, the Commission could consider releasing utility energy

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[8] San Diego understands some CCAs already make public their energy procurement contracts in the interest of transparency.

procurement information that is aggregated over longer periods of time, which should not need the same level of confidentiality protection.[9]

Cost Accountability: Equally important to the details of the utilities' procurement contracts are how contracts are dispatched and how costs are managed. Currently, CCAs and other departing load customers bear all of the risk of utilities' stranded procurement costs but have no ability to reduce, manage, or even audit those costs. On the other hand, utilities bear none of the risk and maintain complete control over costs. The PCIA calculation methodology should be modified to address this imbalance and ensure utilities use every opportunity to minimize stranded cost levels across their procurement portfolios. Essentially, the current PCIA calculation assumes a certain amount of capacity is stranded and must be sold back into the market. There should be built-in mechanisms to ensure that this, in fact, does happen.

Toward this end, the Commission should consider a number of options, including providing utility incentives or other consequences to motivate utilities to act on any opportunities to reduce costs as they arise, thereby benefitting both bundled customers and departing load customers. The Commission should explicitly provide for an examination of the reasonableness of cost reduction opportunities available to the IOU's, and should review IOU actions with respect to annual departing load and other load change projections in the utilities' annual ERRA compliance filings. And the

[9] Such aggregated information would include total portfolio costs and volumes, by vintage year, distinguishing between bundled and departing load volumes, allocations between customer classes, and distinguishing between renewable and conventional procurement costs.

Commission should, either separately or in conjunction with other measures, hire an independent auditor to review cost reduction opportunities against departing load forecasts and assessing whether additional purchases are avoidable. Currently, CCAs, communities considering CCA, and other departing load customers who bear significant risk for the utilities' stranded procurement costs do not have clear insight into what utility purchases are avoidable, what purchases are not, and whether the utilities are actually selling resources into the market at a loss or are simply buying less in short term markets.

Universal Applicability of PCIA to Departing Load: All customers departing the utility's procurement service should share in paying the stranded costs of resources originally signed for the benefit of those customers. This principal is central to the concept of customer indifference, not only between bundled and departing load customers but between groups of departing load customers. San Diego notes that the universe of customers ultimately responsible for paying the PCIA is currently unclear. While the Commission has clearly identified its application to Direct Access and Community Choice Aggregation customers, its application to other customer groups that no longer buy their electricity from the utility is less specific. Particularly as the Commission considers adding costs such as storage to the PCIA, in the interest of true customer indifference, the Commission must ensure universal applicability of the PCIA to the entire departing load customer base, and visibility into who is paying it.

Managing PCIA Rate Volatility and Uncertainty: Based on the experience of other CCAs operating in California, it is clear that the PCIA rate can be a significant and volatile component of a CCA's total rate and therefore its economic viability. The City of San Diego strongly encourages the Commission to consider options for providing PCIA rate certainty to departing load customer groups over a longer period of time than the one year forecast on which the current rate is based. Such options could include changing the inputs to the PCIA calculation methodology itself in order to forecast stranded costs over a longer period of time, and providing options to departing load groups for managing the output of the PCIA. Such changes are necessary to provide customers the ability to assess the longer-term economics of departing the utility's procurement service and provide some certainty in that assessment.

Apply CCA Consideration to SDG&E's Bundled Procurement Plan (BPP): In its latest Long Term Procurement Plan decision, D.15-10-031, the Commission adopted PG&E's proposal to, among other things, include more complete CCA projections in its bundled procurement plans that govern its electricity procurement. In that Decision, the Commission approved the same change for SCE; however, the Commission did not address this change with respect to SDG&E. San Diego urges the Commission to universally apply this common-sense modification to all three utilities, and modify SDG&E's bundled procurement plan accordingly so that SDG&E reasonably takes into consideration departing load when making future procurement decisions about new or existing contracts.

PCIA Formula Tool: Finally, once the Commission has modified the PCIA calculation to ensure it meets the principles outlined above, the Commission should provide a single-source reference tool for the PCIA formula, its inputs and the utilities' obligations to provide them, identifying which inputs are confidential and why. A single-source tool is critically important to ensure transparency for all of the California communities currently considering or operating a CCA, as well as other departing load groups, and reflects the PCIA's importance to the assessment of respective energy options.

C. Question 3: How should the CPUC address the potential departure from bundled service of a very large load, such as the City of San Diego or County of Los Angeles? Would transferring contractual responsibility from an IOU to a CCA be an option?

Conceptually, San Diego is willing to explore all reasonable options designed to ensure customer indifference as it investigates the ability of a CCA to benefit City businesses and residents as well as achieve its ambitious climate action and renewable energy goals.

Options for addressing this issue could include transferring contractual responsibility, as well as phasing in CCA operations in a manner designed to minimize the utility's stranded costs.

As a practical matter, the answer to Question 3 cannot be separated from the themes of transparency and accountability raised in response to Question 2. Transferring responsibility for energy procurement contracts from an IOU to a CCA, for example, is an option only if the municipality or municipalities considering CCA has much greater visibility into those contracts' commitments, modifications and assumptions than currently exists. Similarly, a phased-in approach designed to accommodate the utility's current procurement portfolio must be informed by the details of that same procurement portfolio, as well as confidence in the utility's accountability to take all available measures to diligently synchronize its future procurement approach with the CCA's phase-in schedule.

Additionally, from the City's perspective, it would be helpful to know how both the Commission and the utilities define "very large" load in this context, and over what time period a departing load is considered to be "very large." For instance, does the pace of CCA customer enrollment change what the Commission or utilities consider to be "very large?" If so, what is that pace? At what point does a departing load begin to impact the operations of the utility's procurement function? The answers to these and other questions are integral to the City of San Diego and its CCA planning process.

D. Question 4: Should Direct Access (DA) customers and Community Choice Aggregator (CCA) customers be treated differently vis-à-vis the PCIA? If so, why and how?

As noted above in response to Question 2, all customers departing the utility's procurement service should share in paying the stranded costs of resources originally signed for the benefit of those customers.

To the extent the Commission adopts options for how departing load customers pay their fair share of stranded costs, those options should be available to all departing load customers to assess as best fits their respective procurement business models. All departing load customer groups should have access to the same choices.

E. Question 5: Can transparency regarding the calculation of the PCIA be increased while protecting valid interests in keeping certain information confidential?

Per San Diego's response to Questions 1 and 2 above, further transparency regarding the calculation of the PCIA not only can be achieved while protecting valid interests in keeping certain information confidential, but it **<u>must be achieved</u>** if true customer indifference is to be preserved and if all ratepayers, both bundled and departing customers, are to be ensured the greatest benefits.

IV. CONCLUSION

The City of San Diego thanks the Administrative Law Judge, Commissioner Florio and Energy Division staff for their attention to the matters discussed herein. San Diego looks forward to participating in the March 8, 2016 Workshop.

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Respectfully submitted,
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